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February 24, 2006

To: Mayor Michael D. Antonovich  
Supervisor Gloria Molina  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

From: David E. Janssen  
Chief Administrative Officer

**SACRAMENTO UPDATE -- LAO ANALYSIS OF FY 2006-07 BUDGET BILL**

Today, the Legislative Analyst's Office (LAO) released its second and more detailed analysis of the FY 2006-07 Budget Bill. The report contains an analysis of the entire budget, including the LAO's findings and recommendations on proposed funding levels and policy issues. The release of the two reports will be followed by the beginning of legislative budget subcommittee hearings that will address the Governor's policy and budget proposals for FY 2006-07. The full report is available at [www.lao.ca.gov](http://www.lao.ca.gov).

Based on our review of the LAO's report, we have focused on the items of interest to the County including those discussed in our Sacramento Updates of January 10, 2006 and February 7, 2006 on the Governor's Proposed Budget. These include:

- Underfunding of local government mandates in FY 2005-06 and FY 2006-07
- Concerns about Help American Vote Act (HAVA) funds
- The need for statutory language to expedite court facility transfers
- Incentives for the efficient use of primary care in the Medi-Cal Program
- Greater flexibility in county administration costs in health and welfare programs
- Cost controls for the Healthy Families Program
- A shift in funding sources that may offset increased State obligations associated with the Federal Hospital Financing waiver
- Clarification of Proposition 36 reforms sought by the Administration
- Underfunding of the AB 3632 program
- Reductions in the CalWORKs Child Care program

- Reduction of Cash Assistance Program for Immigrants (CAPI) benefits to sponsored immigrants
- Denial of the Statewide implementation of Sexual Assault Felony Enforcement (SAFE) teams
- Concerns about the need for statewide radio interoperability
- Replacement of Prop 42 with increased gas taxes
- Use of Motor Vehicle Account (MVA) funds for non-vehicle purposes

The comments made by the LAO in the Analysis of the 2006-07 Budget Bill are presented in bold.

## STRATEGIC GROWTH PLAN

**Infrastructure Bond Proposal.** As part of the FY 2006-07 Proposed Budget, Governor Schwarzenegger introduced his Strategic Growth Plan, which calls for a \$222 billion (\$68 billion General Fund), 10-year plan to improve the State's infrastructure. **The LAO points out that the funding proposal is not supported by the statutorily required State infrastructure plan, and recommends that the Legislature not approve the bond proposals pending receipt of the infrastructure plan. The LAO further recommends that the Legislature only approve bonds for a five-year period to match the term of the State's infrastructure plan.**

## GENERAL GOVERNMENT

**SB 90 State Mandated Local Programs.** Includes \$98.1 million for the first year of the 15-year repayment plan to reimburse counties for mandated costs incurred prior to FY 2004-05. Of this initial amount, the County will receive approximately \$14 million. The State currently owes the County about \$197.4 million for mandate claims prior to FY 2004-05. **The LAO withholds its recommendation on this issue pending updated information regarding the backlog of non-education mandate obligations incurred prior to FY 2004-05. The LAO will wait for the State Controller's Office to tally late claims and complete mandate audits to determine the actual amount to be repaid over a 15-year period to local governments.**

The LAO also has determined that, based on current-year claims to date, the State will not have sufficient funds to pay for all claims. Therefore, the LAO recommends that the Legislature recognize an anticipated FY 2005-06 mandate deficiency of \$140 million, and appropriate funding through current year legislation, or include funding in the FY 2006-07 Budget Bill.

In addition, the LAO estimates that the cost to reimburse local agencies for non-education mandates in the budget year far exceeds the amount proposed by the Administration. To avoid a deficiency, the LAO recommends that the Legislature increase the Governor's Budget Proposal by \$54 million, or take other actions

such as suspending or repealing some mandates to reduce the cost of ongoing mandates.

**Election Cost Reimbursement.** The FY 2005-06 Budget Act includes \$54 million for reimbursement of costs associated with the November 2005 Special Election. The Budget proposes to maintain the \$54 million in FY 2006-07 to ensure sufficient funding is available for special elections and the June primary. The Registrar Recorder advises that the County would receive an estimated \$9 million for the November 2005 Special Election. **The LAO does not provide a recommendation on this issue. However, the LAO indicates that the Administration intends to seek legislation to appropriate these funds. Under current law, the State is not obligated to reimburse counties for these costs.**

**Implementation of the Help America Vote Act (HAVA).** The LAO indicates that the Secretary of State (SOS) has provided few details on the implementation of HAVA. Delays by the SOS in implementing components of the State's HAVA plan have impaired counties' abilities to acquire and install HAVA compliant equipment for the upcoming June 2006 primary election, despite the State receiving \$350 million in HAVA funding. Additionally, the Governor's Budget fails to provide information needed by the Legislature to assess proposed HAVA spending in FY 2006-07. The LAO is withholding its recommendation on the SOS's HAVA expenditures pending their submittal of a detailed justification.

**Property Tax Administration Grant Program (PTAP).** Extends the suspension of the State-County Property Tax Administration Program through FY 2006-07. This action would result in an additional \$13.5 million loss of revenue to the County. The Administration indicated that it is willing to work with the Legislature and local government representatives to create a new PTAP program for implementation in FY 2007-08. **The LAO does not provide any comments or recommendations.**

**California State Library.** Proposes \$74.6 million, a \$990,000 increase from FY 2005-06 with status quo funding levels for the Public Library Foundation program and the English Acquisition and Literacy Program. **The LAO does not provide any comments or recommendations.**

**Food and Agriculture.** Proposes \$285 million, including an increase of \$12.6 million above the FY 2005-06 Budget, for the prevention or eradication of animal diseases and invasive species. Additionally, it includes \$7.2 million for programs to address emerging threats to the State's food supply. **In the "Perspectives and Issues" report, the LAO recommends rejecting the entire \$7.2 million request from the Department of Food and Agriculture. According to the LAO, the current request fails to maximize the use of available Federal funds.**

**Elimination of the Education Revenue Augmentation Fund III (ERAF) Payments.**

Chapter 211, Statutes of 2004, required local governments to shift an additional \$1.3 billion in property tax revenues to ERAF III in FY 2004-05 and FY 2005-06. Under the provisions of Proposition 1A, starting in FY 2006-07, local governments would no longer be required to transfer additional property tax revenues to the State. **The LAO does not provide any comments or recommendations.**

**Minimum Wage.** The Budget proposes to increase the State's minimum wage from \$6.75 to \$7.25 per hour, effective September 1, 2006. **The LAO does not provide any comments or recommendations.**

**Transfer of Trial Court Facilities.** The LAO notes that current law requires the transfer of about 450 trial court facilities from the counties to the State by June 30, 2007. However, only four have transferred to date because of disagreement over seismic retrofit payments and complicated calculations for county facility payments. The LAO indicates that counties are already required to address serious deficiencies in their buildings before they are transferred and believes that the Legislature intended to include seismic problems in this category.

The LAO recommends that the Legislature clarify the law to specify that counties are responsible for the payment of seismic retrofits of existing court facilities and to allow the use of escrow accounts for these payments. The LAO also notes that the current method of calculating county facility payments is cumbersome and onerous to some counties, and biased against counties with active maintenance programs. The LAO recommends that the Legislature consider simplifying county facilities payment calculations using alternative methodologies such as basing the payment on a per-square-foot maintenance cost for the facilities.

**HEALTH**

**Medi-Cal.** Expenditures are estimated to be \$33.8 billion in FY 2006-07 (\$13.2 billion General Fund), an increase of 12.8 percent above FY 2005-06 expenditures. **The LAO recommends reductions of almost \$330 million over two years to more accurately reflect lower costs to the State for the new Federal Medicare Part D prescription drug benefit.**

**New Strategy to Constrain Medi-Cal Costs and Improve Access to Care.** The LAO recommends that the Legislature enact legislation to promote the use of the most cost-effective and medically appropriate setting for Medi-Cal beneficiaries by: 1) establishing targeted co-payments for non-emergency use of emergency rooms; 2) utilizing new Federal grant funding to improve access to primary care; and 3) eliminating co-payments for Medi-Cal beneficiaries who seek care through a primary care provider.

**Medi-Cal Managed Care Expansion.**

- **Seniors and Persons with Disabilities.** Includes \$2 million (\$936,000 General Fund) to expand outreach and education efforts in Medi-Cal managed care counties to increase voluntary enrollment. The Proposed Budget further requires mandatory enrollment of this population in two additional counties beginning in April 2008.
- **Serious Mental Illness and Chronic Medical Conditions.** Includes \$473,000 (\$208,000 General Fund) to create demonstration projects to coordinate care, including primary care and disease management, for Medi-Cal beneficiaries who have serious mental illness and chronic health conditions and for those with chronic conditions who are seriously/terminally ill.

**The LAO recommends approval of five of 17 additional positions requested for the California Department of Health Services to implement this expansion because the Administration's proposal does not consider that the expansion will be phased in over FY 2006-07 and FY 2007-08, and it is likely to be delayed in some counties. In addition, to date, the two additional counties have not been identified.**

**Medi-Cal County Administration Cost Control.** Proposes to freeze the State's contribution to county overhead and salaries at the FY 2005-06 level for a savings of \$42.4 million (\$21.2 million General Fund). This proposal is intended to help control the cost of county administration, one of the fastest growing components of the Medi-Cal program. **The LAO indicates that the Governor's proposal would restrict legislative flexibility to adjust funding and service levels in county administration. Instead, the LAO recommends that the Legislature take a consistent approach for all county-administered State programs. If an increase is provided, it should generally be the same percentage increase for all programs, and a decision not to provide an increase should similarly be applied to all programs. Having a consistent policy would eliminate the incentive for counties to shift overhead costs from social services to Medi-Cal where inflationary adjustments have been granted.**

**Expanding Health Insurance Coverage for Children.** Includes \$72.2 million to enroll 400,000 children who are eligible but not enrolled in the Medi-Cal and Healthy Families Programs, including up to \$20 million in grants to counties for outreach and enrollment activities, and \$45.5 million to simplify the annual redetermination eligibility form for children who are already enrolled in Medi-Cal. **The LAO finds that the proposal to provide grants to counties for outreach for children's health programs could be effective in increasing enrollment in the Healthy Families Program and Medi-Cal, but is concerned that the proposed funding allocation formula creates the risk that the State will provide additional funding primarily for those counties,**

including Los Angeles County, that are best able to obtain non-State funding sources for these purposes. The LAO recommends that the Legislature modify the program's allocation plan to require counties which receive grants to maintain their ongoing level of support for these activities, and consider permitting an exception for counties which shift their available funding to the direct provision of health coverage for children.

The LAO agrees with the proposal to streamline the annual Medi-Cal re-enrollment form is a practical step to encourage beneficiaries to remain in the program, but recommends that the Legislature reduce funding for the caseload increase associated with this change indicating that the projected increase in the program appears to be somewhat overstated.

**Healthy Families Program (HFP) Reauthorization.** Future uncertainties surrounding the reauthorization of Federal State Children's Health Insurance Program (SCHIP) funding pose significant increased costs to the State General Fund for the Healthy Families Program. To control those costs, the LAO proposes to: 1) cap program enrollment; 2) trim benefits; 3) increase premiums, as long as it does not adversely affect enrollment; 4) shift children to the Medi-Cal program for children ages six to 19 for families with incomes under 133 percent of the Federal Poverty Level; 5) phase in new enrollees to certain county programs for families with incomes above 200 percent of the Federal Poverty Level, subject to federal approval; and/or 6) reduce expenditures in other State programs, which would free up dollars for the HFP.

**Public Health.** Increases funding by \$49 million (\$47.3 million General Fund) to bolster State and local public health capacity to prevent and respond to disease outbreaks and natural or man-made disasters. The LAO finds that the Governor's proposals to improve the State's preparedness and response to emergencies and disasters by strengthening public health scientific expertise are warranted.

The LAO, however, recommends that the Legislature adopt trailer bill language requesting the Bureau of State Audits to conduct an audit of the funding for the California Department of Health Services public health programs and require the Administration to include public health program expenditure information in the Budget because the Department is unable to provide the Legislature with detailed information about these expenditures.

**Hospital Financing Waiver.** Reflects an additional \$246 million in Federal funding for hospitals under the new Federal Hospital Financing Waiver in FY 2005-06 and \$570.7 million in FY 2006-07. The LAO indicates that the new Federal hospital financing waiver is estimated to result in a net increase in Medi-Cal costs of \$39 million over its first two years. The LAO recommends that the Legislature shift support for additional safety net health care programs, including the

**Expanded Access for Primary Care Program and the AIDS Drug Assistance Program, to Federal hospital funds to achieve net General Fund savings for the State.** If this recommendation is adopted, it will reduce available Federal funds for public hospitals.

**Proposition 36.** Proposes to fund Proposition 36, the Substance Abuse and Crime Prevention Act of 2000, at \$120 million on a one-time basis conditioned upon the Legislature passing reforms to the program. Proposed reforms include jail sanctions to hold offenders accountable for attending and completing treatment, mandatory drug testing as a condition of probation, and judicial monitoring using the drug court model. It should be noted that the LAO reports that in FY 2004-05 actual expenditures for Proposition 36 programs were approximately \$143 million. Under the Governor's Budget, the County's share of funds is \$30 million. This represents 67 percent of the current year funding. **The LAO indicates that if the State were to stop or significantly reduce funding for Proposition 36, many counties would either have to reduce expenditures or identify other funding sources to continue to provide these services. Further, the State would risk losing about \$180 million in Federal block grant funding over two years because Proposition 36 funding is counted as part of the maintenance of effort requirement for these funds.**

The LAO recommends that the Legislature direct the Administration to provide a more specific and detailed plan for implementing the policy changes that it is seeking under this program. In addition, it may want to seek a legal opinion from the Office of Legislative Counsel regarding the State's authority to use alternative funding approaches. This would allow the Legislature to consider options such as a block grant, or the expansion of mental health services for Proposition 36 offenders that give preference to counties that are able to demonstrate the highest levels of performance, best outcomes, or those that provide the highest percentage of matching resources.

The LAO withholds recommendation on the proposal at this time noting that a cost-benefit analysis of the program is due to the Legislature on April 1, 2006, and the results of the study will be relevant to the Legislature's deliberations over funding levels.

**HIV/AIDS Treatment and Prevention.** Includes \$409.4 million for the AIDS Treatment and Prevention Program administered by the Office of AIDS, for an increase of \$24 million above the FY 2005-06 Budget. Of this amount, \$296.4 million is included in the AIDS Drug Assistance Program (ADAP), which provides life-saving medications to low-income persons living with HIV/AIDS. **The LAO does not provide any recommendations.**

## MENTAL HEALTH

**Proposition 63.** Includes \$8.4 million from Proposition 63, the Mental Health Services Act, for the State's implementation of the Act in FY 2006-07. Funding available for counties from Proposition 63 is \$648.9 million in FY 2005-06 and \$655.5 million in FY 2006-07. **The LAO does not provide any recommendations.**

**AB 3632.** Provides \$100 million in special education funding in the Department of Education budget for mental health services to special education pupils as required by the Federal Individuals with Disabilities Education Act. This includes \$69 million in Federal funds for counties to provide these services under contract with local education agencies and \$31 million in Proposition 98 funds for local education agencies for pre-referral mental health services. The Administration has begun to consult with mental health and education stakeholders to shift AB 3632 from a State-mandated program to a categorical program in FY 2006-07. The Proposed Budget includes \$50 million as a set-aside in the Commission on State Mandates for funding mental health services to pupils under the new categorical program. This is \$10 million less than appropriated in the current year budget. The potential impact to the County is \$3.3 million. **The LAO agrees with the Administration's assumption that the reform of AB 3632 is unlikely to generate enough savings to bring the Governor's proposal into alignment with the level of funding included in the budget year. Therefore, the LAO recommends that the Legislature conform its policy decisions regarding the AB 3632 mandates to the funding of this program.**

**Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT).** The EPSDT Program will be transferred permanently from the State Department of Health Services to the State Department of Mental Health. The Proposed Budget includes \$714.4 million (\$352.3 General Fund) for the EPSDT Program, a net decrease of \$100.6 million from the FY 2005-06 level funding. Key adjustments include an increase of \$57.9 million for an increased number of projected claims, and a reduction of \$19.1 million for audit disallowances and county self-corrected claims. **The LAO does not provide any recommendations.**

## SOCIAL SERVICES

**CalWORKs Administration.** Reduces the County's Single Allocation for CalWORKs by \$40 million. The proposal allows counties to backfill the reduction with previously earned and allocated, but unspent performance incentive funds. Los Angeles County has spent all earned and allocated performance incentive funds. The Proposed Budget also proposes the use of \$40 million in savings in Federal TANF funds to offset State General Fund costs in Child Welfare Services and Foster Care. **The LAO recommends that the Legislature assess whether the proposal to increase TANF expenditures on child welfare services is consistent with its priorities for limited TANF block grant funds.**



**CalWORKs Pay for Performance Allocation.** Delays incentive payments to counties for the Pay for Performance Program pending full implementation of the "work first" and core work requirements for a savings of \$30 million in FY 2006-07. Of this amount, the estimated impact to the County would be \$10 million. **The LAO does not provide any comments or recommendations.**

**CalWORKs Child Care.** Reduces the FY 2005-06 allocation by \$114.6 million and the child care reserve by \$5.4 million which reflects lower numbers of CalWORKs participants moving into work and lower child care expenditures. It also retains \$11.5 million in the FY 2005-06 TANF reserve which will be available to counties if they incur additional child care costs. The estimated impact to the County would be \$38.2 million. **The LAO indicates that this proposal has merit because a reduction in child care is likely to occur and recommends adoption of budget trailer bill legislation specifying that the supplemental claiming period for these child care funds would be limited to one month, rather than the usual nine months. Under this approach, the funds would revert in August 2006.**

**Prospective Budgeting.** Reduces CalWORKs administrative savings associated with prospective budgeting from \$127.7 million to \$102.7 million in FY 2006-07. **The LAO indicates that this proposal is reasonable.**

**Statewide Fingerprint Imaging System.** Proposes \$8.08 million for maintenance and operation, which is a \$57,000 increase. **The LAO does not provide any comments or recommendations.**

**Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) System.** Includes \$11.4 million for maintenance and operation of the LEADER System which represents an \$842,000 increase and reflects estimated expenditures for the extension of the LEADER contract beginning in May 2007. **The LAO does not provide any comments or recommendations.**

**In Home Supportive Services (IHSS).** Proposes General Fund spending of \$1.3 billion in FY 2006-07, an increase of 4.1 percent over FY 2005-06 due to increased caseloads. **The LAO recommends that the Legislature recognize a General Fund savings of \$26 million for FY 2005-06 because a review of actual expenditures for the first six months of FY 2005-06 indicates that IHSS costs are over budgeted by \$82 million (\$26 million General Fund).**

**Supplemental Security Income/State Supplementary Payment (SSI/SSP) COLA.** Withholds the January 2007 Federal COLA until July 1, 2008 for savings of \$48.1 million. **The LAO does not provide any recommendations.**

**Foster Care.** Increases funding for Child Welfare Services by \$89.1 million for a total allocation of \$3.8 billion. **The LAO recommends that proposed General Fund**

spending for Foster Care grants be reduced by \$1.4 million for FY 2005-06 and \$3.9 million for FY 2006-07 and that the foster care administrative funding be reduced by \$220,000 in FY 2006-07 because the caseload projections overestimate the number of children in foster family agency homes.

**Child Support Services.** Proposes \$192.2 million in General Funds for local agency administrative costs, approximately the same level of funding provided in FY 2005-06. **The LAO does not provide any comments or recommendations.**

**Federal Child Support Automation Penalty.** Proposes \$220 million in State funding for payment of the Federal Fiscal Year (FFY) 2006 penalty and assumes that there will be no penalty for FFY 2007 because the State and the Franchise Tax Board plan to submit a request for Federal certification of the California Child Support Automation System as an Alternate System Configuration, as required by the Federal government. Pursuant to Federal child support regulations, penalties will be held in abeyance while the Federal certification process is under review. **The LAO does not provide any comments or recommendations.**

**Cash Assistance Program for Immigrants (CAPI).** Under current law, the income and resources of the sponsors are deemed to the CAPI recipient for a period of 10 years for purposes of eligibility. The Proposed Budget extends the income deeming period from 10 to 15 years for immigrants who entered the country on or after August 22, 1996. The Proposed Budget estimates that there will be a General Fund savings of \$12.5 million in FY 2006-07 and \$40 million in FY 2007-08. **The LAO presents a number of policy options for reducing program costs. The LAO favors the options to eliminate benefits for post-1996 sponsored immigrants and narrowly target benefits for other sponsored immigrants.**

## **JUSTICE AND PUBLIC SAFETY**

**Booking Fee Subventions.** Provides \$40 million to offset counties' costs to book suspects into county jails, but the Department of Finance indicates that this is a placeholder amount with actual funding to be determined with stakeholders. **While acknowledging that the details of this proposal have not been released by the Administration, the LAO believes that this proposal would reimburse cities and special districts for the costs of booking fees imposed by counties in similar manner to the program previously in place prior to the enactment of Chapter 227, Statutes of 2004, which eliminated the booking fee subvention reimbursements by the State to the cities and special districts.**

**Juvenile Probation Camp Funding.** Provides about \$202 million from the General Fund for juvenile probation camps and comprehensive youth services. The Probation Department estimates that the County will continue receiving \$82 million. **The LAO does not provide any comments or recommendations.**

**Citizens Option for Public Safety (COPS).** The Governor's Budget includes \$100 million from the General Fund to maintain the current-year level of funding for the COPS Program, which supports local law enforcement front-line services. **The LAO does not provide any recommendations.**

**Juvenile Justice Programs.** The Governor's Budget includes \$100 million in support of the Schiff-Cardenas Juvenile Justice Grants. This will maintain current-year levels of funding for this program that focuses on crime prevention strategies for at-risk youth. **The LAO does not provide any comments or recommendations.**

**Sexual Assault Felony Enforcement (SAFE).** Includes \$6 million in local assistance grant funding in the Office of Emergency Services to support the activities of SAFE teams statewide. SAFE teams reduce violent sexual assault offenses through surveillance and arrest of habitual sexual offenders. **The LAO recommends deleting this grant funding because the Administration was unable to provide information about how many such programs currently exist, how they are currently funded, or document their level of success to date. The proposal also fails to demonstrate why State funding is necessary if the teams have been operating for the past several years without State assistance.**

**California Law Enforcement Telecommunications Systems (CLETS).** Includes \$2.3 million to enhance and support CLETS which is a statewide telecommunications network available to all California law enforcement and criminal justice agencies. **The LAO does not provide any recommendations.**

**Adult Detention Local Assistance Payments.** Provides \$85.1 million in FY 2005-06 and \$11.9 million in FY 2006-07 to reimburse local entities for the incarceration costs of parolees that are detained for State parole violations. Of this amount, \$55.4 million is set aside on a one-time basis to address outstanding prior claims for reimbursement. The remaining \$29.7 million for FY 2005-06 is to fund the anticipated shortfall in the current year. The Administration intends to pursue strategies that reduce the number of days these parole violators spend in local detention facilities. While the nature of these strategies has not been revealed, in the absence of any changes in procedure by the State, the County estimates its claims to total \$32 million during the next fiscal year. **The LAO does not provide any recommendations.**

**New Judgeships.** Includes \$5.5 million to support facilities, staff, salaries and benefits for up to 150 new judgeships phased in over a three-year period beginning in April 2007. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted. **The LAO does not provide any recommendations.**

**California Highway Patrol (CHP) Radio Interoperability.** The Governor's budget proposes to begin a five-year \$491 million project to modernize its radio system in FY 2006-07. The LAO concurs that the CHP's radio system needs improving.

However, because it is not clear if the proposed solution supports the State's goal of interoperability among public safety agencies, the LAO recommends that the Director of the Office of Emergency Services, as chair of the Public Safety Radio Strategic Planning Committee, report to the Legislature at budget hearings on how the CHP's proposal supports the State's goal.

## **TRANSPORTATION**

**Proposition 42.** Proposes to fully fund Proposition 42 at \$1.4 billion for FY 2006-07 and prepay a portion of the FY 2004-05 loan that is due to be repaid in FY 2007-08, which will provide an additional \$255 million to cities and counties. Counties can use this funding for street paving in the unincorporated areas. Also, the Budget proposes a constitutional amendment to permanently protect Proposition 42 funds and eliminate the option for future governors and legislatures to suspend the allocation. The County would receive an estimated \$25 million from the early repayment of the FY 2004-05 loan. **The LAO indicates that the proposal to permanently protect Proposition 42 funds would increase the long-term stability of State transportation funding, but it would come at the expense of removing a budget balancing tool. The LAO recommends that Proposition 42 be repealed and that the gas tax be increased correspondingly to generate an equivalent amount of funds for transportation. The LAO also recommends that this tax be indexed to inflation to prevent the erosion of the revenue over time relative to road use.**

**Rail Safety.** Proposes \$1.4 million to enhance rail safety through additional accident investigations, evaluations of quiet zone notices, railroad inspections, and oversight of rail transit agencies' homeland security programs. **The LAO does not provide any comments or recommendations.**

## **NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION**

**Water Projects.** Proposes the sale of \$9 billion in General Obligation bonds for new water projects, of which \$6.5 billion will be dedicated to Integrated Regional Water Management for projects to improve drinking water quality and protect public health, complete surface water storage planning, develop water efficiency, and for research and development efforts that will address the energy requirements, costs, and environmental issues related to desalination. **The LAO does not provide any comments or recommendations.**

**Water Quality.** Proposes an additional \$8.5 million to enhance existing water monitoring efforts. **The LAO does not provide any comments or recommendations.**

**Air Quality.** Proposes \$2 billion for actions that will directly reduce air pollution resulting from the movement of goods and people, including \$1 billion for reducing current goods movement-related air pollution in and around major ports and port-related facilities through cleanup and replacement of diesel engines in trucks and equipment. **The LAO indicates that the State Constitution limits the uses of Motor Vehicle Account (MVA) funding to mitigation of environmental effects resulting from operation of “motor vehicles used upon the State’s public streets and highways.”** These motor vehicles include diesel trucks, but not ships, locomotives, or most cargo moving equipment. The Governor’s Budget proposes funding to address goods movement-related air pollution from various pollution sources, including ships and locomotives, using the MVA as the sole funding source. However, mitigation of air pollution produced by vehicles not used on the State’s public roadways is not an eligible use of MVA funds.

Therefore, the LAO recommends that the Air Resources Board (ARB) resubmit its funding proposal so that it limits MVA funding, consistent with State law, to those mitigation activities directly related to motor vehicles used on public roadways. The LAO further recommends that the ARB identify alternative funding sources for mitigation of environmental effects ineligible for MVA funding.

**Climate Change Initiative.** Proposes \$7.2 million to implement greenhouse gas emission reduction strategies. **The LAO recommends that the Legislature provide statutory direction for a State climate change policy that addresses a number of issues, including greenhouse gas emission reduction targets, the appropriate mix of regulatory and voluntary strategies, and lead agency designation.**

**Alternative Fuels.** Proposes \$500,000 to the Energy Resources Programs Account to implement AB 1007, which requires the development of recommendations to increase the use of alternative fuels. **The LAO does not provide any comments or recommendations.**

**Environmental Enforcement.** Proposes \$6.2 million in special funds to strengthen environmental enforcement efforts, including: \$4 million to the Air Resources Board to enforce heavy-duty diesel regulations, evaluate on-board diagnostic systems in vehicles, and replace older testing and diagnostic equipment; \$1.5 million to the Department of Toxic Substances Control to enhance existing enforcement efforts related to the electronic waste recycling program; \$425,000 to the Department of Pesticide Regulation to conduct additional pesticide mill assessment audits; and \$223,000 to the Integrated Waste Management Board to investigate fraud in the electronic waste program. **The LAO does not provide any comments or recommendations.**

**Hydrogen Highways.** Proposes \$6.5 million to the Air Resources Board to continue development of the Hydrogen Highway, which is part of the Governor's Hydrogen Highway Blueprint Plan that includes a goal of establishing 50 to 100 hydrogen fueling stations in California. **The LAO recommends the deletion of the \$6.5 million to continue funding for the Hydrogen Highway Initiative until results from the current expenditures are evaluated and the Legislature signs off on its policy to move forward.**

We will continue to keep you advised.

DEJ:GK  
IGR:cc

c: Executive Officer, Board of Supervisors  
County Counsel  
Local 660  
All Department Heads  
Legislative Strategist  
Coalition of County Unions  
California Contract Cities Association  
Independent Cities Association  
League of California Cities  
City Managers Associations  
Buddy Program Participants